

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands)

	Three Months Ended December 31, <u>1990</u>	Years Ended December 31, <u>1991</u> <u>1992</u>		Six Months Ended June 30, <u>1992</u> <u>1993</u> (Unaudited)	
REVENUES:					
Advertising revenues, net of agency commissions of \$1,600, \$6,738, \$10,011, \$4,436 and \$5,100, respectively	\$ 9,181	\$39,698	\$58,544	\$26,484	\$30,180
Revenues realized from barter arrangements (Note 1)	<u>1,024</u>	<u>5,660</u>	<u>8,805</u>	<u>4,286</u>	<u>4,406</u>
Net broadcast revenues	<u>10,205</u>	<u>45,358</u>	<u>67,349</u>	<u>30,770</u>	<u>34,586</u>
OPERATING EXPENSES:					
Program and production (Note 1)	3,488	13,380	17,454	8,518	8,921
Selling, general and administrative	2,960	11,807	13,663	5,953	5,778
Amortization of program contract costs and net realizable value adjustments	1,196	9,711	16,288	7,084	4,889
Depreciation and amortization of property and equipment	332	2,051	2,654	1,352	1,207
Amortization of acquired intangible broadcasting assets and other assets (Notes 1 and 11)	237	6,316	11,978	6,431	5,761
Special bonuses to be paid to executive officers (Note 14)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,000</u>
	<u>8,213</u>	<u>43,265</u>	<u>62,037</u>	<u>29,338</u>	<u>36,556</u>
Broadcast operating income	<u>1,992</u>	<u>2,093</u>	<u>5,312</u>	<u>1,432</u>	<u>(1,970)</u>
OTHER INCOME (EXPENSE):					
Interest expense (Notes 3, 4, 8 and 11)	(1,402)	(8,895)	(12,997)	(6,620)	(5,783)
Interest income	94	461	1,117	573	545
Other income (Note 12)	<u>56</u>	<u>101</u>	<u>90</u>	<u>52</u>	<u>861</u>
	<u>(1,252)</u>	<u>(8,333)</u>	<u>(11,790)</u>	<u>(5,995)</u>	<u>(4,377)</u>
INCOME (LOSS) BEFORE (PROVISION) BENEFIT FOR INCOME TAXES	740	(6,240)	(6,478)	(4,563)	(6,347)
(PROVISION) BENEFIT FOR INCOME TAXES (Note 7)	<u>(288)</u>	<u>1,580</u>	<u>1,189</u>	<u>837</u>	<u>880</u>
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	452	(4,660)	(5,289)	(3,726)	(5,467)
EXTRAORDINARY ITEM — GAIN ON PURCHASE OF WARRANTS (Note 3)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>198</u>
NET INCOME (LOSS)	<u>\$ 452</u>	<u>\$ (4,660)</u>	<u>\$ (5,289)</u>	<u>\$ (3,726)</u>	<u>\$ (5,269)</u>

The accompanying notes are an integral part of these consolidated statements.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Note 1)
(In thousands)

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Total Stockholders' Equity</u>
BALANCE, September 30, 1990	\$7	\$ 132	\$ 1,017	\$ 1,156
Net income	<u>—</u>	<u>—</u>	452	452
BALANCE, December 31, 1990	7	132	1,469	1,608
Net loss	<u>—</u>	<u>—</u>	(4,660)	(4,660)
BALANCE, December 31, 1991	7	132	(3,191)	(3,052)
Realization of deferred gain	<u>—</u>	4,576	—	4,576
Net loss	<u>—</u>	<u>—</u>	(5,289)	(5,289)
BALANCE, December 31, 1992	7	4,708	(8,480)	(3,765)
Realization of deferred gain	<u>—</u>	25	—	25
Net loss	<u>—</u>	<u>—</u>	(5,269)	(5,269)
BALANCE, June 30, 1993	<u>\$7</u>	<u>\$4,733</u>	<u>\$(13,749)</u>	<u>\$(9,009)</u>

The accompanying notes are an integral part of these consolidated statements.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended December 31, <u>1990</u>	Years Ended December 31, <u>1991</u> <u>1992</u>		Six Months Ended June 30, <u>1992</u> <u>1993</u> (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	\$ 452	\$ (4,660)	\$ (5,289)	\$ (3,726)	\$ (5,269)
Adjustments to reconcile net income (loss) to net cash flows from operating activities-					
Amortization of program contract costs and net realizable value adjustments	1,196	9,711	16,288	7,084	4,889
Depreciation and amortization of property and equipment	332	2,051	2,654	1,352	1,207
Amortization of acquired intangible broad- casting assets and other assets	237	6,316	11,978	6,431	5,761
Realization of deferred gain	(117)	(21)	(105)	(52)	(54)
Amortization of debt discount	-	610	2,096	916	1,035
Gain on life insurance proceeds	-	-	-	-	(844)
Gain on purchase of warrants	-	-	-	-	(198)
Changes in assets and liabilities, net of effects of acquisitions and dispositions-					
(Increase) decrease in accounts receivable, net	(773)	(4,800)	(3,831)	473	2,181
(Increase) decrease in refundable income taxes	(266)	(670)	(822)	(813)	226
(Increase) decrease in prepaid expenses and other current assets	(780)	(2,837)	(2,939)	(679)	1,912
(Increase) decrease in deferred tax asset ..	-	(390)	(300)	-	700
(Increase) decrease in other assets and ac- quired intangible broadcasting assets ...	(740)	(5,144)	2,601	-	(1,424)
Increase (decrease) in accounts payable and accrued liabilities	3,188	2,932	(5,873)	(6,928)	(727)
Increase in special bonuses to be paid to executive officers	-	-	-	-	10,000
(Decrease) increase in income taxes pay- able	(16)	257	(172)	(358)	(186)
Decrease in deferred taxes payable	(80)	(756)	(306)	(149)	(1,450)
Net effect of change in deferred barter reve- nues and change in deferred barter costs	124	(175)	(318)	-	(3)
Payments on program contracts payable ..	<u>(1,171)</u>	<u>(4,688)</u>	<u>(10,427)</u>	<u>(4,619)</u>	<u>(3,941)</u>
Net cash flows from operating activities ...	<u>\$1,586</u>	<u>\$ (2,264)</u>	<u>\$ 5,235</u>	<u>\$ (1,068)</u>	<u>\$13,815</u>

The accompanying notes are an integral part of these consolidated statements.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended December 31, 1990	Years Ended December 31, 1991 1992		Six Months Ended June 30, 1992 1993 (Unaudited)	
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$1,586	\$ (2,264)	\$ 5,235	\$ (1,068)	\$13,815
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property and equipment	—	(1,730)	(426)	(194)	(95)
Loans to officers and affiliates, net of noncash item of \$1,496 in 1991	(70)	(653)	(809)	(699)	(123)
Repayments of loans to officers and affiliates	231	109	184	15	102
Acquisition of WPGH, Inc.	—	(55,000)	—	—	—
Proceeds from life insurance benefits	—	—	—	—	1,075
Net cash flows from investing activities	<u>161</u>	<u>(57,274)</u>	<u>(1,051)</u>	<u>(878)</u>	<u>959</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from notes payable and commercial bank financing, net of noncash items of \$15,006 and \$3,061 in 1990 and 1991, respectively	4,549	77,258	25,037	8,036	3,150
Issuance of warrants	—	11,606	—	—	—
Purchase of warrants	—	—	—	—	(1,350)
Repayments of notes payable, commercial bank financing and capital leases	(2,844)	(30,641)	(23,891)	(1,567)	(17,154)
Repayments of notes and capital leases payable to affiliates	(50)	(1,068)	(4,887)	(4,780)	(128)
Net cash flows from financing activities	<u>1,655</u>	<u>57,155</u>	<u>(3,741)</u>	<u>(1,689)</u>	<u>(15,482)</u>
Net increase (decrease) in cash and cash equivalents	3,402	(2,383)	443	(257)	(708)
CASH AND CASH EQUIVALENTS, beginning of period	361	3,763	1,380	1,380	1,823
CASH AND CASH EQUIVALENTS, end of period	<u>\$3,763</u>	<u>\$ 1,380</u>	<u>\$ 1,823</u>	<u>\$ 1,123</u>	<u>\$ 1,115</u>
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR:					
Interest	<u>\$ 334</u>	<u>\$ 5,604</u>	<u>\$13,192</u>	<u>\$ 7,357</u>	<u>\$ 4,592</u>
Income taxes	<u>\$ 415</u>	<u>\$ 362</u>	<u>\$ 489</u>	<u>\$ 81</u>	<u>\$ 535</u>

The accompanying notes are an integral part of these consolidated statements.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1990, 1991 AND 1992, JUNE 30, 1992 (UNAUDITED) AND 1993

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying consolidated financial statements, prepared on the accrual basis of accounting, include the accounts of Sinclair Broadcast Group, Inc. (SBG), Commercial Radio Institute, Inc. (CRI), Chesapeake Television, Inc. (WBFF), WPGH, Inc. (WPGH) and WTTE Channel 28, Inc. (WTTE) and all other subsidiaries. Through August 1993, CRI was a wholly-owned subsidiary of SBG, and WBFF, WPGH and WTTE are wholly-owned subsidiaries of CRI. In September 1993, CRI was merged into SBG.

On September 30, 1990, SBG issued notes payable to former SBG majority owners in the aggregate amount of \$14,215,000 in consideration of stock redemptions. Through the notes, the former majority owners have subordinated security interests in all of the assets of the Companies. The notes include stated interest rates of 8.75%, although the effective interest rate approximates 9.4%, and are personally guaranteed by the current stockholders of SBG. As of December 31, 1991 and 1992, SBG had prepaid approximately \$689,000 and \$469,000 of the related interest. The notes are due May 31, 2005. The stock redemption was accounted for under the "push-down" method of accounting, as substantially all of the common stock of SBG became owned by a management control group through the above-described redemption of approximately 73% of SBG's common stock and the transaction described below. The purchase price was allocated based upon the fair value of the assets and liabilities of the Company and resulted in additional recorded acquired intangible broadcasting assets of \$13,759,000.

The accompanying financial statements reflect the results of operations of SBG and subsidiaries since the redemption date of September 30, 1990, reflecting a new basis of accounting as a result of the application of "push-down" accounting. Information prior to September 30, 1990, represent the financial results of the "predecessor" of SBG and subsidiaries. The companies mentioned above, as well as the predecessor, which are collectively referred to hereafter as "the Company or Companies", own and operate television stations in Baltimore, Maryland; Pittsburgh, Pennsylvania; and Columbus, Ohio.

Principles of Consolidation

All significant intercompany transactions and account balances have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and overnight investments at a commercial bank.

Programming

The Companies have agreements with distributors for the rights to television programming over contract periods which generally run from one to seven years. Contract payments are made in installments over terms that are generally shorter than the contract period. Each contract is recorded as a liability when the license period begins and the program is available for its first showing. The portion of the program contracts payable due within one year is reflected as a current liability in the accompanying consolidated financial statements.

The rights to program materials are reflected in the accompanying consolidated balance sheets at the lower of unamortized cost or estimated net realizable value. Estimated net realizable values are based upon management's expectation of future advertising revenues to be generated by the program

material. Amortization of program contract costs is generally computed under either the straight-line method based on license period or based on usage, whichever yields the greater amortization for each program. Program contract costs to be amortized in the succeeding year are classified as current assets.

Amortization expense and net realizable value adjustments were \$1,196,000, \$9,711,000 and \$16,288,000 for the three months ended December 31, 1990, and the years ended December 31, 1991 and 1992, respectively, and \$5,084,000 and \$4,888,000 for the six months ended June 30, 1992 and 1993, respectively. Due to programming commitments entered into in 1992, certain program contracts acquired in connection with the WPGH acquisition were subsequently determined to have no value to the Companies. Approximately \$3,000,000 of charges were included in amortization of program contract costs and net realizable value adjustments during 1992 related to these contracts.

WBFF, WTTE and WPGH are affiliated with the Fox Broadcasting Company (Fox). Under the affiliation agreements and subsequent renewals, WBFF, WTTE and WPGH are committed to make available certain time periods for Fox programming through October 15, 1998, in exchange for advertising air time and other defined compensation. Net revenues related to these affiliation agreements were approximately \$1,411,000, \$6,348,000, \$10,698,000, \$4,450,000 and \$6,032,000, respectively, during the three months ended December 31, 1990, the years ended December 31, 1991 and 1992, and during the six months ended June 30, 1992 and 1993.

Barter Arrangements

The Companies broadcast certain customers' advertising in exchange for equipment, merchandise and services. The estimated fair value of the equipment, merchandise or services to be received is recorded as deferred barter costs and the corresponding obligation to broadcast advertising is recorded as deferred barter revenues. The deferred barter costs are expensed or capitalized as they are used, consumed or received. Deferred barter revenues are recognized as the related advertising is aired.

Certain program contracts provide for the exchange of advertising air time in lieu of cash payments for the rights to such programming. These contracts are recorded as the programs are aired at the estimated fair value of the advertising air time given in exchange for the program rights.

Other Assets

Other assets primarily relate to the \$6,000,000 term note, prepaid noncompete agreements and deferred financing costs (see Note 11).

Acquired Intangible Broadcasting Assets

Acquired intangible broadcasting assets are being amortized over periods of 3 to 40 years. These amounts result from the acquisition of minority interests in 1988 and the stock redemptions in 1988 and 1990 (see Note 11), as well as the acquisition of WPGH (see Note 13). The weighted average life of the related assets which include goodwill and the WPGH FCC license, decaying advertising base, Fox affiliation agreement and other intangible assets is approximately 9 years.

Interim Financial Statements

The consolidated financial statements for the six months ended June 30, 1992 are unaudited, but in the opinion of management, such financial statements have been presented on the same basis as the audited financial statements and include all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for that period.

2. PROPERTY AND EQUIPMENT:

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed under the straight-line method over the following estimated useful lives:

Buildings and improvements	10 - 35 years
Station equipment	5 - 10 years
Office furniture and equipment	5 - 10 years
Leasehold improvements	10 - 31 years
Automotive equipment	3 - 5 years
Property and equipment under capital lease ...	Shorter of 10 years or the lease term

Property and equipment consists of the following as of December 31, 1991 and 1992 and June 30, 1993 (in thousands):

	December 31,		June 30,
	1991	1992	1993
Land and improvements	\$ 578	\$ 578	\$ 578
Buildings and improvements	2,993	2,993	2,993
Leasehold improvements	2,128	2,139	2,164
Station equipment	8,173	8,455	8,329
Office furniture and equipment	1,422	1,500	1,608
Automotive equipment	311	307	307
Property, equipment and autos under capital leases	<u>7,631</u>	<u>7,672</u>	<u>7,672</u>
	23,236	23,644	23,651
Less—Accumulated depreciation and amortization	<u>7,284</u>	<u>9,918</u>	<u>11,099</u>
	<u>\$15,952</u>	<u>\$13,726</u>	<u>\$12,552</u>

3. NOTES PAYABLE AND COMMERCIAL BANK FINANCING:

In order to obtain the necessary financing to purchase WPGH, CRI refinanced its previously existing \$25,000,000 term note on August 30, 1991. The resulting \$95,000,000 secured debt facility consists of \$80,000,000 in term loans with annual reductions in equal quarterly installments which began on September 30, 1992. The \$80,000,000 term loan consists of two tranches which are payable over 73 to 76 months and includes a \$57,000,000 interest rate hedging provision. The lenders have also made available a \$15,000,000 senior secured revolving line of credit. A portion of this facility was restricted in use to service certain obligations to previous minority stockholders as described in Note 11. Under these loan agreements, the Company is restricted from declaring or paying dividends. As discussed in Note 14, additional restrictions have been applied subsequent to June 30, 1993.

CRI has the option to elect interest rates among various base rates plus certain percentages over the base rate, which fluctuate depending upon operating cash flows. The agreement imposes various restrictions and covenants on the Companies including certain restrictions as to dispositions and purchases of assets, dispositions and purchases of businesses, additional indebtedness, guarantees of indebtedness, issuance or redemptions of common stock, additional loans to affiliates and the maintenance of certain financial ratios and cash flow requirements. An availability fee of 1/2% per annum on any unborrowed committed amount is payable quarterly. Additionally, a prepayment fee exists within the first 36 months for any permanent reduction in the total commitment.

Average interest rates incurred under the term loan during 1991, 1992 and the six months ended June 30, 1992 and 1993 were 10.2%, 9.5%, 9.8% and 9.3%, respectively. Effective interest rates, including the amortization of debt discount and deferred financing costs were 13.8%, 13.1%, 13.3% and 13.6%, respectively.

For the revolver portion of the secured debt facility, average borrowings and the highest borrowings outstanding were approximately \$2,000,000 and \$3,000,000 during 1991, \$10,000,000 and \$13,000,000 during 1992, \$10,000,000 and \$12,000,000 during the six months ended June 30, 1992, and \$8,100,000 and \$13,000,000 during the six months ended June 30, 1993, respectively. The average interest rate and highest interest rate were 9.5% and 10.0% during 1991, 7.4% and 8.5% during 1992, 7.6% and 8.5% during the six months ended June 30, 1992, and 6.3% and 8.0% during the six months ended June 30, 1993, respectively.

Under the previous secured revolving credit facility, average borrowings and the highest borrowings outstanding were \$500,000 and \$2,500,000 during 1991. The average interest rate and highest interest rate during 1991 were 9.1% and 9.6%.

In conjunction with the refinancing discussed above, CRI also entered into a warrant agreement with the bank. The warrants were valued at \$11,607,000 in accordance with an independent appraisal and were recorded as warrants outstanding with a corresponding reduction to the face amount of the commercial bank financing. The warrant value is being amortized as debt discount expense over the term of the debt. Amortization of debt discount expense was \$610, \$2,096, \$916 and \$1,035 for the years ended December 31, 1991 and 1992 and the six months ended June 30, 1992 and 1993.

This agreement provided the bank an option to convert the warrants to 15% of the issued and outstanding shares of common stock of WPGH at the occurrence of certain triggering events, or at the expiration date of August 30, 2001. On June 15, 1993, the Company purchased 13.33% of the warrants outstanding for \$850,000. The difference between the carrying value of the warrants and the purchase price, net of related expenses of \$500,000, was recorded as an extraordinary gain.

The warrants were puttable for cash based on predefined formulas after certain triggering events. Triggering events for put rights of the warrants are defined as the earlier of September 30, 1993, the date upon which the outstanding debt becomes due or is refinanced, a merger or consolidation of CRI or WPGH, a sale, lease or other disposition of all or substantially all of the assets of CRI or WPGH or their subsidiaries, any change in control or if it becomes legally burdensome to hold such warrants. The warrants were callable after March 31, 1994.

The warrant agreement includes certain restrictions which prohibit WPGH from issuing any preferred stock or stock rights. Further, among other restrictive covenants, WPGH may not repurchase, redeem or otherwise acquire any shares of common stock of any class, other than from present shareholders. CRI may not incur, at any time, any indebtedness which in the aggregate is in excess of \$125,000,000. WPGH and its subsidiaries are restricted from incurring, at any time, any indebtedness which, in the aggregate, is in excess of \$58,500,000. The warrant holders also had the right to participate in any sales of WPGH's stock on a pro-rata basis and share in the proceeds of certain asset or stock sales subsequent to the redemption of the warrants.

In September 1993, the Company purchased the remaining warrants outstanding for \$9,000,000. The carrying value of these warrants as of June 30, 1993, was \$10,059,000.

Notes payable and commercial bank financing consisted of the following as of December 31, 1991 and 1992, and June 30, 1993 (in thousands):

	December 31,		June 30,
	1991	1992	1993
Secured debt facility payable to a commercial bank, interest ranging among various base rates plus certain percentages above the base rate	\$80,000	\$71,333	\$66,331
Secured revolving credit facility payable to a commercial bank, interest ranging among various base rates plus certain percentages above the base rate	1,000	13,000	5,500
Mortgages payable to various financial institutions, interest ranging from 12% to 15%	503	448	415
Unsecured installment notes to former minority stockholders of CRI and WBFF, interest ranging from 7% to 18% .	<u>5,759</u>	<u>4,231</u>	<u>3,905</u>
	87,262	89,012	76,151
Less — Unamortized debt discount	<u>(10,996)</u>	<u>(8,900)</u>	<u>(7,865)</u>
	76,266	80,112	68,286
Current portion	<u>(7,606)</u>	<u>(10,734)</u>	<u>(10,813)</u>
	<u>\$68,660</u>	<u>\$69,378</u>	<u>\$57,473</u>

Notes payable, as of June 30, 1993, mature as follows (in thousands):

1993	\$ 5,384
1994	10,879
1995	13,039
1996	13,163
1997	33,486
1998	12
1999 and thereafter	<u>188</u>
	<u>\$76,151</u>

Substantially all of the Companies' assets have been pledged as security for notes payable and commercial bank financing. In addition, the stockholders have pledged their stock in SBG to the commercial bank and have delivered mortgages and security agreements, as well as the \$6,000,000 note received from the sale of WPTT as described in Note 8 (held by former SBG majority stockholders effective March 1, 1993), as additional collateral. Further, Cunningham Communications, Inc. (Cunningham), Keyser Investment Group, Inc. (Keyser), and Gerstell Development Limited Partnership (Gerstell), all businesses that are owned and controlled by the stockholders, were required to guarantee obligations to the commercial bank. Cunningham, Keyser, and Gerstell are landlords of the Company's operating subsidiaries. The guarantees of Cunningham, Keyser, and Gerstell are secured by pledges of substantially all of the assets of each corporation.

The unsecured installment notes payable to former minority stockholders are payable in semi-annual payments of \$702,000 through 1997. Should SBG exercise the right to prepay the notes, a prepayment penalty not to exceed \$940,000 also becomes due to the noteholders.

4. NOTES AND CAPITAL LEASES PAYABLE TO AFFILIATES:

Notes and capital leases payable to affiliates, resulting from the transactions described in Notes 1, 8 and 11, consisted of the following as of December 31, 1991 and 1992, and June 30, 1993 (in thousands):

	<u>December 31,</u>		<u>June 30,</u>
	<u>1991</u>	<u>1992</u>	<u>1993</u>
Subordinated installment notes payable to former majority owners, interest at 8.75%, principal payments in varying amounts due annually beginning October 1991, with a balloon payment due at maturity	\$13,309	\$13,117	\$13,117
Notes payable to former officer as described in Note 11, interest at 16%	4,363	—	—
Unsecured note payable to former officer, interest at prime rate plus 1%	120	—	—
Capital lease for building, interest rate 17.5%	1,705	1,689	1,671
Capital leases for broadcasting tower facilities, interest rates averaging 10%	<u>1,672</u>	<u>1,476</u>	<u>1,366</u>
	21,169	16,282	16,154
Current portion	<u>4,888</u>	<u>320</u>	<u>354</u>
	\$16,281	\$15,962	\$15,800

Notes and capital leases payable to affiliates, as of June 30, 1993, mature as follows (in thousands):

1993	\$ 405
1994	1,331
1995	1,365
1996	1,398
1997	894
1998	672
1999 and thereafter	<u>12,032</u>
Total minimum payments due	18,097
Less—Amount representing interest on capital leases)	<u>\$ 1,943</u>
	<u>\$16,154</u>

5. PROGRAM CONTRACTS PAYABLE:

Future payments required under program contracts payable as of June 30, 1993, are as follows (in thousands):

1993	\$ 6,153
1994	8,694
1995	4,903
1996	820
1997	211
1998 and thereafter	<u>39</u>
	20,820
Less—Current portion	<u>(11,521)</u>
Long-term portion of program contracts payable	<u>\$ 9,299</u>

Included in the 1993 amounts are payments due in arrears of \$1,746,000. In addition, the Companies have entered into noncancelable commitments for future program rights aggregating \$14,700,000 as of June 30, 1993. As is consistent with prior years, program contracts payable and the assets related to these commitments have not been recognized in the accompanying consolidated financial statements as all of the conditions specified in the related license agreements have not been met.

6. LOANS TO OFFICERS AND AFFILIATES:

On September 30, 1990, SBG sold Channel 63, Inc. (WIIB) to certain SBG stockholders. The proceeds of this sale of \$1,500,000 consisted of a note which was amended and restated on June 30, 1992. The remaining principal balance at that date was approximately \$1,459,000 and is payable in equal principal and interest installments of \$16,000 until September 2000, on which date a balloon payment of approximately \$431,000 is due. The note earns 6.88% annual interest.

Also during the three months ended December 31, 1990, the years ended December 31, 1991 and 1992, and the six months ended June 30, 1992 and 1993, the Companies loaned the SBG stockholders an additional \$70,000, \$400,000, \$809,000, \$699,000 and \$122,000, respectively. The 1992 and 1993 advances included \$163,000 and \$71,000 of accrued interest. The loans are payable to SBG on demand and earn interest at rates ranging from prime plus 1% to 7.9%.

During 1990, WBFF sold certain station equipment to an affiliate for \$512,000. The sale is accounted for on an installment basis since the affiliate is in the start-up phase. The note is to be paid over five years and earns annual interest at 11%. In connection with the start-up of this affiliate, the Company loaned \$3 million to certain SBG stockholders. This note is accruing interest at prime plus 1% and requires quarterly principal repayments of the remaining balance over six years beginning May 1, 1994. As of June 30, 1993, the balance outstanding was approximately \$2,493,000.

7. INCOME TAXES:

SBG, including its consolidated subsidiaries, files consolidated federal income tax returns and separate company state tax returns.

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". The Company retroactively adopted the new accounting and disclosure rules effective January 1, 1990, resulting in an increase in net income of \$390,000 and \$291,000 in the years ended December 31, 1991 and 1992, respectively, from what would have been reported under the previous method.

The provision (benefit) for income taxes consists of the following (in thousands):

	Three Months Ended December 31, 1990	Years Ended December 31, 1991 1992		Six Months Ended June 30, 1992 1993 (unaudited)	
Current					
Federal	\$300	\$ (392)	\$ (858)	\$(884)	\$(180)
State	68	(42)	275	109	50
	<u>368</u>	<u>(434)</u>	<u>(583)</u>	<u>(775)</u>	<u>(130)</u>
Deferred					
Federal	(64)	(988)	(573)	(49)	(600)
State	(16)	(158)	(33)	(13)	(150)
	<u>(80)</u>	<u>(1,146)</u>	<u>(606)</u>	<u>(62)</u>	<u>(750)</u>
	<u>\$288</u>	<u>\$(1,580)</u>	<u>\$(1,189)</u>	<u>\$(837)</u>	<u>\$(880)</u>

The following is a reconciliation of the statutory federal income taxes to the recorded provision (benefit) (in thousands):

	Three Months Ended December 31, 1990	Years Ended December 31, 1991 1992		Six Months Ended June 30, 1992 1993 (unaudited)	
Statutory federal income taxes	\$252	\$(2,122)	\$(2,203)	\$(1,551)	\$(2,158)
Adjustments —					
State income taxes, net of federal effect .	34	(119)	160	63	(254)
Goodwill amortization	95	430	484	243	235
Nontaxable gain on life insurance pro- ceeds	—	—	—	—	(337)
Portion of tax loss carryforward gener- ated recorded as a valuation allowance	—	—	—	—	1,800
Other	(93)	231	370	408	(166)
Provision (benefit) for income taxes	<u>\$288</u>	<u>\$(1,580)</u>	<u>\$(1,189)</u>	<u>\$ (837)</u>	<u>\$ (880)</u>

During the six months ended June 30, 1993, the Company generated taxable losses of approximately \$7,300,000, resulting in a deferred tax asset of \$2,793,000. The total deferred tax asset as of June 30, 1993 of \$2,400,000 required an additional valuation allowance of \$1,800,000—the amount by which the net deferred tax asset exceeded the deferred tax liability.

Temporary differences between the financial reporting carrying amounts and the tax basis of assets and liabilities give rise to deferred taxes. The principal sources of temporary differences and their effects on the provision (benefit) for deferred income taxes are as follows (in thousands):

	Three Months Ended December 31, 1990	Years Ended December 31, 1991 1992		Six Months Ended June 30, 1992 1993 (unaudited)	
Program contract amortization and net re- alizable value adjustments	\$(163)	\$ (644)	\$(853)	\$(405)	\$ 328
Depreciation and amortization	66	169	(220)	(117)	(210)
Bad debt reserves	(24)	14	(37)	(18)	(20)
Tax credit carryforwards generated	—	—	(450)	—	—
Loss carryforward for tax purposes	—	—	—	—	(2,793)
Capital lease accounting	21	66	100	49	60
Deferred gain recognition	(27)	34	34	17	15
Deferred commission recognition	—	(280)	89	44	—
Other	47	(515)	731	368	70
Increase in valuation reserve	—	—	—	—	1,800
	<u>\$ (80)</u>	<u>\$(1,156)</u>	<u>\$(606)</u>	<u>\$ (62)</u>	<u>\$ (750)</u>

Total deferred tax assets and deferred tax liabilities as of December 31, 1991 and 1992, and June 30, 1993, and the sources of the difference between financial accounting and tax bases of the Company's assets and liabilities which give rise to the deferred tax assets and deferred tax liabilities and the tax effects of each are as follows (in thousands):

	December 31,		June 30,
	1991	1992	1993
Deferred Tax Assets:			
Tax credit carryforwards	\$ —	\$ 450	\$ 450
Loss carryforward for tax purposes	—	—	2,793
Accounts receivable	152	189	208
Deferred commissions	415	326	282
Program contracts	1,187	2,041	1,325
Other	646	394	186
Valuation allowance	(600)	(600)	(2,400)
	<u>\$1,800</u>	<u>\$2,800</u>	<u>\$2,844</u>
Deferred Tax Liabilities:			
FCC license	\$1,557	\$1,493	\$1,461
Property and equipment	1,380	1,138	960
Capital lease accounting	155	254	315
Other	64	665	108
	<u>\$3,156</u>	<u>\$3,550</u>	<u>\$2,844</u>

8. RELATED PARTY TRANSACTIONS:

Certain of the Companies have entered into **sale-leaseback** transactions in which they sold certain facilities to Cunningham Communications, Inc. (Cunningham), a corporation owned by various SBG stockholders, and then leased the facilities under noncancelable capital leases which expire in 1997 and 1998. These assets collateralize certain Cunningham notes payable. Aggregate rental payments related to these capital leases during the three months ended December 31, 1990, the years ended December 31, 1991 and 1992, and the six months ended June 30, 1992 and 1993, were \$168,000, \$285,000, \$354,000, \$173,000 and \$182,000, respectively.

In August 1991, WBFF entered into a ten year capital lease at approximately \$300,000 per year for a new administrative and studio facility with Keyser, a corporation owned by the SBG stockholders.

Effective August 30, 1991, SBG sold substantially all of the assets of CRI which were primarily represented by the Pittsburgh television station, WPTT. The majority of the sales price was financed through a term note of \$6,000,000 and a \$1,000,000 subordinated convertible debenture to CRI. The debenture is convertible for up to 80% of the nonvoting capital stock of WPTT, subject to FCC approval. The term note is secured by all of the assets and outstanding stock of the newly incorporated station. The gain of \$5,233,000, net of the investment in WPTT at the sale date, was deferred until the realizability of the related notes was determined to be probable. Related to the sale of WPTT, CRI has entered into lease agreements whereby the new owner of WPTT rents usage of the tower and the station building owned by CRI.

In March 1993, CRI assigned the rights to the \$6,000,000 term note received from the sale of WPTT, plus accrued interest, to the former majority stockholders of SBG in exchange for \$50,000 in cash and a note for \$6,559,000. The new note bears interest at 7.21% and requires interest only payments through September 2001. Monthly principal payments of \$109,000 plus interest are payable beginning November 2001 until September 2006, at which time the remaining principal balance plus accrued interest, if any, is due. The deferred gain of \$4,486,000 related to the \$6,000,000 note was recognized in 1992 as the realizability from the former stockholders (to whom SBG owed \$13,117,000 as of December 31, 1992) was determined to be probable. This amount was recognized as additional paid-in capital due to the related party nature of the transaction.

During 1992, the \$1,000,000 subordinated convertible debenture received from the sale of WPTT was assigned to SBG's current stockholders in exchange for \$100,000 in cash and a \$900,000 note which bears interest at 7.9%. As the remaining note is due from current stockholders, the portion of the gain related to the original \$1,000,000 debenture is being recognized as a capital contribution as cash is received. For the year ended December 31, 1992, and the six months ended June 30, 1993, \$90,000 and \$25,000, respectively, were recognized as additional paid-in capital.

In conjunction with the WPTT transaction, on August 30, 1991, CRI purchased substantially all of the assets of another Pittsburgh television station, WPGH. The results of operations of WPTT through August 30, 1991 and the results of operations of WPGH from August 30, 1991 through December 31, 1992 are included in the accompanying consolidated financial statements. CRI paid \$55,000,000 for WPGH which included approximately \$11,656,000 for property and programming costs and \$9,993,000 of acquired intangible broadcasting assets. A deferred tax liability and corresponding additional goodwill of \$1,950,000 was also recorded due to differences between the book and tax basis of the acquired assets. The remainder was allocated to other intangible assets based upon an independent appraisal and is being amortized over periods ranging from 3 to 25 years.

In January 1992, WPGH entered into a management agreement with Keyser Communications, Inc. (KCI), an affiliated company owned by the stockholders of the Company, whereby WPGH places on WPTT certain of WPGH's excess programming on behalf of KCI. Program contracts deemed to have no value to WPGH were utilized under this arrangement during 1992 and 1993. Amortized cost and net book value as of the beginning of the year for these contracts were approximately \$1,460,000 and \$1,200,000 in 1992 and \$695,000 and \$85,000 for the six months ended June 30, 1993, respectively. In consideration for this programming, WPGH earns a 10% commission on all net revenues generated for this and other programming plus the promotional use of any unsold inventory on WPTT. Any out-of-pocket expenses are reimbursed by KCI, although WPGH does pay for commissions earned on the sales. Commissions and reimbursements, net of commissions paid, of approximately \$112,000 in 1992 and \$54,000 during the six months ended June 30, 1993, and promotional commercial inventory valued at approximately \$40,000 in 1992 and \$17,000 during the six months ended June 30, 1993, were received under this arrangement.

9. EMPLOYEE BENEFIT PLAN:

The Sinclair Broadcast Group, Inc. 401(k) profit sharing plan and trust (the SBG Plan) covers eligible employees of each of the Companies. Contributions made to the SBG Plan include an employee elected salary reduction amount, company matching contributions and a discretionary amount determined each year by the Board of Directors. The Company's 401(k) expense for the three months ended December 31, 1990, the years ended December 31, 1991 and 1992, and for the six months ended June 30, 1992 and 1993, were \$11,000, \$79,000, \$109,000, \$55,000 and \$69,000, respectively. There were no discretionary contributions during these periods.

10. CONTINGENCIES AND OTHER COMMITMENTS:

Lawsuits and claims are filed against the Companies from time to time in the ordinary course of business. These actions are in various preliminary stages, and no judgments or decisions have been rendered by hearing boards or courts. Management, after reviewing developments to date with legal counsel, is of the opinion that the outcome of such matters will not have a material adverse effect on the Companies' financial position or results of operations.

The Companies have entered into operating leases for certain automotive and office equipment, a parcel of land and WTTE's broadcasting tower facility under terms ranging from three to ten years. The rent expense under these leases, as well as certain leases under month-to-month arrangements, for the three months ended December 31, 1990, the years ended December 31, 1991 and 1992, and the six months ended June 30, 1992 and 1993, aggregated approximately \$258,000, \$268,000, \$239,000, \$120,000 and \$108,000, respectively. Future minimum payments under the leases are as follows (in thousands):

1993	\$118
1994	117
1995	21
1996	<u>—</u>
	<u>\$256</u>

11. TRANSACTIONS WITH FORMER OFFICERS:

In December 1986, the Companies entered into certain not-to-compete agreements with a former officer in the aggregate amount of \$345,000 per year. This agreement ended May 1993.

On January 1, 1988, the Companies issued a note payable to another former officer in the amount of \$4,000,000 in consideration of a stock redemption. This note payable matured and was repaid in February 1992, along with interest due in arrears for this note.

Also during 1990, the Companies paid \$5,979,000 to this former officer in consideration of a stock redemption and extensions of the existing not-to-compete and consulting agreements through 1993. As this transaction was a final redemption related to a step acquisition which began in 1986, this redemption was also accounted for under the purchase method of accounting. As such, the agreement resulted in additional recorded acquired intangible broadcasting assets of \$1,242,000 and other assets of \$4,800,000 in the Companies' 1990 financial statements.

On January 1, 1988, the former officer also loaned the Companies \$363,000, through a term promissory note. This note also matured February 1992. Interest on these notes accrued at 5.5% per annum to be paid annually. Additional interest of 10.5% per annum, on the unpaid principal balance, was paid at maturity along with the entire principal portion.

Additionally, the Companies entered into various consulting and not-to-compete agreements with this former officer and a related consulting company. Under these agreements, annual consulting fees, which were guaranteed by CRI and WBFF, of \$563,000 and aggregate not-to-compete payments totaling \$2,657,000 were payable through 1991. Payments under these agreements were \$2,157,000 and \$2,512,000 during 1991 and 1992, respectively, with the final payment made in February 1992.

The expense under these agreements is being recorded on a straight-line basis over the life of the agreements and is recorded in the Companies' consolidated statement of operations within the respective expense classifications to which they relate. Expenses recorded in excess of cash payments are recorded as accrued liabilities. Expenses recorded under these agreements were \$2,525,000 in 1991 and 1992.

12. LIFE INSURANCE PROCEEDS:

In May 1993, the Company received life insurance proceeds in excess of the carrying value of the related policies of approximately \$844,000. This nontaxable gain has been recorded as other income.

13. ACQUISITION OF WPGH:

The unaudited pro forma summary consolidated results of operations for the three months ended December 31, 1990, and the year ended December 31, 1991, assuming the acquisition of WPGH and the sale of WPTT had occurred on October 1, 1990, is as follows (in thousands):

	<u>1990</u>	<u>1991</u>
	(Unaudited)	
Revenues, net	\$15,066	\$56,547
Operating expenses, net of depreciation and amortization	8,168	30,168
Depreciation and amortization	5,726	23,327
Other expenses, net	3,338	14,311
Benefit for income taxes	<u>(800)</u>	<u>(3,300)</u>
Net loss	<u>\$ (1,366)</u>	<u>\$ (7,959)</u>

14. SUBSEQUENT EVENTS:

Acquisitions

Subsequent to June 30, 1993, the Company entered into an agreement with ABRY Communications, Inc. (ABRY) to purchase two of their stations for an aggregate purchase price of approximately \$60 million, plus approximately \$56 million for covenants not-to-compete in these and the Company's current markets. These two stations, both of which are Fox affiliates, are WCGV in Milwaukee, Wisconsin, and WTTO in Birmingham, Alabama.

The Company has also entered into agreements to purchase the program contracts and certain other assets of television station WNUV in Baltimore, Maryland, and WVTM in Milwaukee, Wisconsin. These agreements are for an aggregate purchase price of approximately \$65 million. The Company will not be acquiring the FCC license and certain other related assets of either station.

A standby letter of credit has been issued in the amount of \$6,250,000 and placed with an escrow agent to hold for the ABRY acquisitions. Restrictions against the Company's revolving line of credit in that amount are in place as long as the letter of credit remains open. The execution of the letter of credit is limited to specific breaches of the agreements.

Bonuses Declared

In September 1993, the Company declared special bonuses to be paid to executive officers totaling \$10,000,000. As the bonuses were compensation for various past services, the total amount has been recorded as compensation expense during the six months ended June 30, 1993 and has been accrued as of June 30, 1993.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEET

AS OF SEPTEMBER 30, 1993

(in thousands)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 2,428
Accounts receivable, net of allowance for doubtful accounts of \$575	13,979
Refundable income taxes	1,537
Current portion of program contract costs	6,056
Deferred barter costs	688
Prepaid expenses and other current assets	953
Deferred tax asset	450
Total current assets	26,091
PROPERTY AND EQUIPMENT, net	12,754
PROGRAM CONTRACT COSTS, noncurrent	5,144
LOANS TO OFFICERS AND AFFILIATES, net of deferred gain of \$620 in 1993	12,934
OTHER ASSETS	4,343
ACQUIRED INTANGIBLE BROADCASTING ASSETS, net	63,492
Total Assets	<u>\$124,758</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 1,284
Accrued liabilities	3,684
Current portion of long-term liabilities —	
Notes payable and commercial bank financing	10,874
Capital leases payable	756
Notes and capital leases payable to affiliates	621
Program contracts payable	12,526
Deferred barter revenues	713
Total current liabilities	30,458

LONG-TERM OBLIGATIONS:

Notes payable and commercial bank financing	71,063
Capital leases payable	1,246
Notes and capital leases payable to affiliates	18,437
Program contracts payable	8,734
Deferred taxes payable	1,219
Deferred gains	280
	<u>131,437</u>

COMMITMENTS AND CONTINGENCIES (Note 3)

STOCKHOLDERS' EQUITY

Common stock, \$.01 par value, 25,000,000 shares authorized and 691,980 shares issued and outstanding	7
Additional paid-in capital	4,746
Accumulated deficit	(11,432)
Total stockholders' equity	<u>(6,679)</u>
Total Liabilities and Stockholders' Equity	<u>\$124,758</u>

The accompanying notes are an integral part of this unaudited consolidated balance sheet.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1992 AND 1993
(In thousands)

	<u>1992</u>	<u>1993</u>
REVENUES:		
Advertising revenues, net of agency commissions of \$6,801 and \$7,785	\$40,441	\$45,768
Revenues realized from barter arrangements	<u>5,129</u>	<u>5,523</u>
Net broadcast revenues	<u>45,570</u>	<u>51,291</u>
OPERATING EXPENSES:		
Program and production	12,179	12,224
Selling, general and administrative	8,377	9,104
Amortization of program contract costs and net realizable value adjustments	11,841	6,999
Depreciation and amortization of property and equipment	2,003	1,879
Amortization of acquired intangible broadcasting assets and other assets	9,634	8,422
Special bonuses paid to executive officers	<u>—</u>	<u>10,000</u>
	<u>44,034</u>	<u>48,628</u>
Broadcast operating income	1,536	2,663
OTHER INCOME (EXPENSE):		
Interest expense	(9,972)	(8,574)
Interest income	864	772
Other income	<u>79</u>	<u>850</u>
	<u>(9,029)</u>	<u>(6,952)</u>
LOSS BEFORE BENEFIT FOR INCOME TAXES	(7,493)	(4,289)
BENEFIT FOR INCOME TAXES	<u>1,399</u>	<u>80</u>
NET LOSS BEFORE EXTRAORDINARY ITEM	(6,094)	(4,209)
EXTRAORDINARY ITEM — GAIN ON PURCHASE OF WARRANTS	<u>—</u>	<u>1,257</u>
NET LOSS	<u>\$ (6,094)</u>	<u>\$ (2,952)</u>

The accompanying notes are an integral part of these unaudited consolidated statements.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1993
(in thousands)

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
BALANCE, December 31, 1992	\$7	\$4,708	\$ (8,480)	\$(3,765)
Realization of deferred gain	—	38	—	38
Net loss	—	—	(2,952)	(2,952)
BALANCE, September 30, 1993	<u>\$7</u>	<u>\$4,746</u>	<u>\$(11,432)</u>	<u>\$(6,679)</u>

The accompanying notes are an integral part of this unaudited consolidated statement.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1992 AND 1993
(In thousands)

	<u>1992</u>	<u>1993</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (6,094)	\$ (2,952)
Adjustments to reconcile net loss to net cash flows from operating activities —		
Depreciation and amortization of property and equipment	2,003	1,879
Amortization of acquired intangible broadcasting assets and other assets	9,634	8,422
Amortization of program contract costs and net realizable value adjustments	11,841	6,999
Gain on life insurance proceeds	—	(844)
Amortization of debt discount	1,375	1,546
Realization of deferred gain	(79)	(73)
Gain on purchase of warrants	—	(1,257)
Gain on sale of assets	—	(6)
Changes in assets and liabilities —		
Decrease in accounts receivable, net	482	3,492
(Increase) decrease in refundable income tax	(822)	263
Decrease in prepaid expenses and other assets	1,367	524
Decrease in accounts payable and accrued liabilities	(7,519)	(938)
Decrease in income taxes payable	(320)	(186)
Decrease in deferred taxes payable	(1,510)	(681)
(Increase) decrease in deferred tax asset	(300)	700
Net effect of increase in deferred barter revenues and change in deferred barter costs	(240)	(23)
Payments on program contracts payable	(7,501)	(6,350)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>2,317</u>	<u>10,515</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(268)	(255)
Proceeds from life insurance benefits	—	1,075
Loans to officers and affiliates	(732)	(175)
Repayment of loans to officers and affiliates	101	728
Proceeds from disposal of assets	—	398
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(899)</u>	<u>1,771</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and commercial bank financing	8,036	25,000
Purchase of warrants	—	(10,350)
Repayments of notes payable, commercial bank financing and capital leases	(9,926)	(25,849)
Payments for deferred financing costs	—	(283)
Repayments of notes and capital leases to affiliates	(155)	(199)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>(2,045)</u>	<u>(11,681)</u>
INCREASE (DECREASE) IN CASH	<u>(627)</u>	<u>605</u>
CASH, BEGINNING OF PERIOD	<u>1,381</u>	<u>1,823</u>
CASH, END OF PERIOD	<u>\$ 754</u>	<u>\$ 2,428</u>
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR:		
Interest	<u>\$10,692</u>	<u>\$ 6,525</u>
Income taxes	<u>\$ 456</u>	<u>\$ 500</u>

The accompanying notes are an integral part of these unaudited consolidated statements.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1992 AND 1993

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying unaudited consolidated financial statements, prepared on the accrual basis of accounting, include the accounts of Sinclair Broadcast Group, Inc. (SBG), Commercial Radio Institute, Inc. (CRI), Chesapeake Television, Inc. (WBFF), WPGH, Inc. (WPGH) and WTTE Channel 28, Inc. (WTTE) and all other subsidiaries. Through August 1993, CRI was a wholly-owned subsidiary of SBG, and WBFF, WPGH and WTTE were wholly-owned subsidiaries of CRI. In September 1993, CRI was merged into SBG. The companies mentioned above, which are collectively referred to hereafter as "the Company or Companies", own and operate television stations in Baltimore, Maryland; Pittsburgh, Pennsylvania; and Columbus, Ohio.

Interim Financial Statements

The consolidated financial statements for the nine months ended September 30, 1992 and 1993 are unaudited, but in the opinion of management, such financial statements have been presented on the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for these periods.

These financial statements do not include all disclosures normally included with audited consolidated financial statements as permitted under the applicable rules and regulations, and, accordingly, should be read in conjunction with the notes contained in the consolidated financial statements and notes thereto as of December 31, 1990, 1991 and 1992, June 30, 1992 (unaudited) and 1993.

Programming

The Companies have agreements with distributors for the rights to television programming over contract periods which generally run from one to seven years. Contract payments are made in installments over terms that are generally shorter than the contract period. Each contract is recorded as a liability when the license period begins and the program is available for its first showing. The portion of the program contracts payable due within one year is reflected as a current liability in the accompanying consolidated financial statements.

The rights to program materials are reflected in the accompanying consolidated balance sheets at the lower of unamortized cost or estimated net realizable value. Estimated net realizable values are based upon management's expectation of future advertising revenues to be generated by the program.

Due to programming commitments entered into in 1992, certain program contracts acquired in connection with the acquisition of WPGH were subsequently determined to have no value to the Companies. Approximately \$2,500,000 of charges were included in amortization of program contract costs and net realizable value adjustments during the nine months ended September 30, 1992 related to these contracts.

2. RELATED PARTY TRANSACTIONS:

In January 1992, WPGH entered into a management agreement with Keyser Communications, Inc. (KCI), an affiliated company owned by the stockholders of the Company, whereby WPGH places on WPTT, another television station in Pittsburgh formerly owned by the Company, certain of WPGH's excess programming on behalf of KCI. Program contracts deemed to have no value to WPGH were utilized under this arrangement during 1992 and 1993. Amortized cost and net book value as of the beginning of the year, or the contract purchase date (for current period additions), for these contracts

were approximately \$1,460,000 and \$1,200,000 for the nine months ended September 30, 1992 and \$981,000 and \$371,000 for the nine months ended September 30, 1993, respectively. In consideration for this programming, WPGH earns a 10% commission on all net revenues generated for this and other programming plus the promotional use of any unsold inventory on WPTT. Any out-of-pocket expenses are reimbursed by KCI, although WPGH does pay for commissions earned on the sales. Commissions and reimbursements, net of commissions paid, of approximately \$84,000 and \$76,000 during the nine months ended September 30, 1992 and 1993, respectively, and promotional commercial inventory valued at approximately \$30,000 and \$26,000 during the nine months ended September 30, 1992 and 1993, respectively, were received under this arrangement.

In September 1993, the Company entered into sale-leaseback transactions in which they sold land and certain facilities to Gerstell Development Limited Partnership (Gerstell), an entity wholly owned by the stockholders of SBG, and then leased the land and facilities under noncancelable capital leases which expire in 2000.

The Company sold this land and a tower in Pittsburgh, Pennsylvania to Gerstell for \$100,000 in cash and a \$2,100,000 note which approximated the Company's net recorded historical cost for these assets. The note is payable interest only in the first year with principal and interest payments of \$15,674 beginning November 1994 at an interest rate of 6.18% per annum ending October, 2013. The WPTT tower facility in Monroeville, PA was also sold to Gerstell in September 1993 for \$115,000.

The commercial bank has retained its security interest in the facility. In return, SBG is guaranteeing a \$2,000,000 construction loan for Gerstell for use in constructing a new tower in Pennsylvania.

In September 1993 several officers repaid \$651,000 of loans which had been made to them by the Company. These loans had been included in Loans to Officers and Affiliates.

3. CONTINGENCIES AND OTHER COMMITMENTS:

Lawsuits and claims are filed against the Companies from time to time in the ordinary course of business. These actions are in various preliminary stages, and no judgments or decisions have been rendered by hearing boards or courts. Management, after reviewing developments to date with legal counsel, is of the opinion that the outcome of such matters will not have a material adverse effect on the Companies' financial position or results of operations.

4. ACQUISITIONS:

In August 1993, the Company entered into an agreement with ABRY Communications, Inc. (ABRY) to purchase two of their stations for an aggregate purchase price of approximately \$80 million, plus approximately \$56 million for covenants not-to-compete in these and the Company's current markets. These two stations, both of which are Fox affiliates, are WCGV in Milwaukee, Wisconsin, and WTOO in Birmingham, Alabama.

The Company has also entered into agreements to purchase the program contracts and certain other assets of television stations WNUV in Baltimore, Maryland, and WTV in Milwaukee, Wisconsin. These agreements are for an aggregate purchase price of approximately \$65 million. The Company will not be acquiring the FCC license and certain other related assets of either station. The acquisitions are subject to FCC approval. Scripps Howard Broadcasting Company has filed a petition to deny the application to assign the license of WNUV to an affiliate of the Company. Although the Company believes that the proposed acquisitions do not violate current FCC regulations, there can be no assurance that FCC consent to the transactions will be obtained.

A standby letter of credit has been issued in the amount of \$6,250,000 and placed with an escrow agent to hold for the ABRY acquisitions. Restrictions against the Company's revolving line of credit in that amount are in place as long as the letter of credit remains open. The execution of the letter of credit is limited to specific breaches of the agreements.

5. BONUSES DECLARED:

In September 1993, the Company declared and paid special bonuses to executive officers totaling \$10,000,000. As the bonuses were compensation for various past services, the total amount has been recorded as compensation expense.

6. WARRANT PURCHASE

In September 1993, the Company purchased the remaining warrants outstanding for \$9,000,000. The carrying value of these warrants as of the date of the purchase was \$10,059,000. The Company recognized an extraordinary gain on the purchase of these warrants of \$1,059,000.

Report of Independent Accountants

To the Partners of BBM Partners, L.P.

In our opinion, the accompanying financial statements listed in the Index on page F-1 present fairly, in all material respects, the financial position of BBM Partners, L.P. at December 31, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Partnership's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Boston, Massachusetts
March 22, 1993

BBM Partners, L.P.

Balance Sheet

	<u>December 31,</u>	
	<u>1991</u>	<u>1992</u>
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 386	\$ 2,925
Accounts receivable, less allowance for doubtful ac- counts of \$151 in 1991 and \$206 in 1992	5,540	5,276
Due from related parties	151	—
Broadcast rights, net	8,741	6,641
Prepaid expenses	66	109
Total current assets	14,884	14,951
Property and equipment, net	16,835	14,736
Broadcast rights, net	9,955	6,631
Goodwill, net	18,565	18,085
Other intangible assets, net	3,397	2,889
	<u>\$63,636</u>	<u>\$57,292</u>
Liabilities and Partners' Capital		
Current liabilities:		
Current portion long-term debt	\$ —	\$ 1,500
Accounts payable	431	454
Accrued expenses	1,366	1,693
Interest payable	1,466	371
Due to related parties	672	589
Broadcast rights payable	4,464	3,992
Total current liabilities	8,399	8,599
Broadcast rights payable	2,011	2,241
Long-term debt	59,201	56,537
Partners' capital	(5,975)	(10,085)
Commitments and contingencies (Note 8)		
	<u>\$63,636</u>	<u>\$57,292</u>

The accompanying notes are an integral part of these financial statements.